

THE IMPACT OF GLOBALIZATION ON THE DEVELOPMENT OF CROSS-BORDER AGRICULTURAL MARKETS

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Abstract

We are currently living in a world in which there is constant talk on globalization, we can even consider it a current trend. But what exactly is globalization? What are its characteristics, its benefits, its problems, what impact does it have on this world? In the current paper we want to analyze a small part of this phenomenon, namely the impact of globalization on the development of cross-border agricultural markets. The globalization of agriculture has been caused by the technological development and the changes in technology, with the introduction of new working machines making this activity easier to conduct, thus enabling the increase of production. The cross-border and intercontinental production also represents an element that makes the activity profitable. The outcome of this process was the standardization of production in the agricultural domain. However, at the same time, there is a large negative impact of the globalization phenomenon in the agricultural sector, namely the significant increase of the unemployment rate, due to the newly introduced machines, as well as due to the excessive use of fertilizers, which have damaged the richness of the soil. When the government restrictions were eliminated through the liberalization of the economy, developed countries have gradually begun registering a higher profit, destroying the agricultural lands without taking account the environment impact in the countries where they are active, thus negatively influencing the life of millions.

Keywords

globalization, cross-border, regional, development, agricultural, market

Introduction

There is no universal definition for globalization and probably there will never be a definitive definition. The reason is the fact that globalization includes a multitude of complex processes with a variable dynamic, influencing several, diverse sectors of the society. It can be a phenomenon, an ideology, a strategy, or all of the above.

Some voices try to define globalization as the “method or system of long-term reception and approach of large contemporary issues, determined by the interaction of multiple economic, technical, political, social and cultural processes and phenomena, as well as the forecasting regarding their settlement in a macro perspective by the international community.”

Globalization can also be defined as “a large scale process, of integration at a global level of material flows (both energy resources, raw materials and material components, as well as finished products), as well as financial and monetary flows, under the framework of specialized, large scale markets; of liberalization in all directions of flows of persons and populations, without the existence of restrictions of any nature or under any circumstance; of democratization of information flows, including scientific and technological information, to which an easier and low cost access for all the countries in the world can be ensured, as to a common heritage of humanity; together with the process of political integration in

flexible structures, which do not damage the specific national characteristics, in the global security climate guaranteed by the UN”

It is universally acknowledged that globalization offers extensive opportunities for real development at global level, but it manifests itself through an unequal progress between regions. Some countries become more integrated in the world economy, with a higher speed than others. The economic globalization can generate satisfaction for those who manage to approach it to their use and discontent for those that seem to be marginalized during this process. Thus, the policies targeted at global integration have induced a high dynamism and prosperity for many countries in South-East Asia, transforming one of the poorest areas of the world in a region with high economic development potential. At the same time, many countries in Latin America and Africa have pursued inward focused policies, resulting in the stagnation of the process of economic development, registering high levels of inflation and the general increase of the poverty levels among the population. As these countries changed their policies, to an outward focused approach, the income began to increase.

1. Literature review

Four aspects refer to economic globalization, indicating four types of cross-border flows, namely: flows of goods and services, flows of persons, flows of capital and flows of technology. A consequence of economic globalization is the improvements of the relations between the developers of same type of industries in different parts of the globe (industry globalization), as well as an erosion of the national sovereignty on the economic activity. The International Monetary Fund defines globalization as the “increase in economic interdependence of countries worldwide, through the increase of the volume and the diversity of cross-border transactions of goods and services, the quicker and freer international capital flow, as well as a large dissemination of technology”. The World Bank defines globalization as the “Freedom and capacity of individuals and companies to initiate voluntary transactions with residents of other countries”.

2. Benefits and problems of globalisation

2.1 Benefits of globalisation

As AUSAID of the Government of Austria has shown, the economies of countries that cooperate well with the international economy have enjoyed constantly higher rate growths in comparison with countries putting protection barriers to their economy. Open economies that are well managed have registered an average growth rate that is 2.5% higher than the growth rate of closed economies to globalization.

Countries with a faster economic growth have had the opportunity to improve life standards and reduce poverty. India has reduced the poverty rate by half in the last two decades. Cheaper imports also make a large area of products more accessible to more persons and thus can contribute to the increase of efficiency and productivity. The enrichment through the economic gains provided by globalization has led to an improvement of the access to medical assistance and clean water, which has increased life expectancy. More than 85% of the world population had a life expectancy of at least 70 years (which is twice as much as average life expectancy 100 years ago)

The increased global income and the reduced investment barriers have led to an increase of foreign direct investments, which has accelerated economic growth in many countries. The improvement of the awareness and the responsibility towards the environmental problems have contributed to positive environmental results, through the encouragement of the use of more efficient, less polluting technology and the facilitating of the imports of renewable resources to replace limited internal natural resources.

An increased interdependency and the development of worldwide institutions, such as the WTO and the World Bank, which manage the resolution of intergovernmental conflicts, have allowed the providing of solutions for political and economic international tensions through a “rules based” approach. The improvement of technology has dramatically reduced the costs and prices, changing the manner in which the world is communicating, learning, doing business and curing diseases.

Modern communication methods and the global spread of information have contributed to the overruling of undemocratic regimes and have led to the increase in the number of liberal democracies in the world. The voluntary adoption by commercial companies worldwide of standards at the workplace for multinational production plants in developing countries have had an important contribution to the observance of international work standards. The wages paid by multinational companies in low income and middle income countries are on average 1.8 or 2 times higher than average wage in these countries.

International migration has led to a higher recognition of diversity and higher respect for cultural identities that improve democracy and the access to human rights.

2.2 Globalisation problems

There are social and economic costs for globalisation. The liberalization of trade rewards competitive industries and penalizes uncompetitive industries, and it is necessary that participating countries to implement economic restructuring and reforms. While this process will bring long-term benefits, there are dislocation costs that they have to support on short-term, with significant social costs for those affected.

Some countries have not been able to take advantage from the globalization process and the life standard in these countries has continued to decrease in comparison with the progress registered in the richest countries.

The increase of commercial trade and travel have facilitated the cross-border spread of human, animal and plant disease, such as HIV/AIDS, SARS and the avian flu. The AIDS crisis has reduced the life expectancy in some parts of Africa to less than 33 years and the delays in the tackling the problems caused by the economic pressures have exacerbated the situation.

The higher interdependence of countries in a globalized world makes them more vulnerable to economic problems. The environment was damaged by the agricultural industries, as well as by forestry, mining and fishing activities, an outcome favoured by the corrupt behaviour in the developing countries. The agricultural seeds companies are destroying the biodiversity of the planet and are depriving farmers from the subsistence of the means of existence.

Large economic powers have a major influence in globalized institutions, such as the WTO, and this can work against the interests of the emerging world. The level of agricultural protection for rich countries was estimated at a level that is five times larger than that offered as aid to poor countries. The liberalization of trade and the technological progress changes the economy of a country, destroys the traditional agricultural communities and allows cheap imports of fabricated products.

Modern communities have spread an awareness of the differences between countries and have increased the migration demand to richer countries.

The competition due to globalization can determine a race to the bottom in wage rates and in work standards. It can favour, at the same time, a “brain drain” of skilled labor, in case professional with academic education and high qualifications, such as doctors, engineers and IT specialists, migrate to developed countries in order to benefit from higher wages and better perspectives for their career and life standards.

The culture and indigenous and national languages can be eroded by the modern, globalized culture.

3. Globalisation of the agricultural sector

The globalisation of agriculture means that each country in the world should have free access on the markets in other countries, with regard to the agricultural products.

In the agricultural sector, the imports of crops can be traded at lower prices and could be exchanged for a product using free trade- as stated in WTO regulations. Thus, countries that focus on agriculture (e.g. the Philippines) could buy or import crops from other countries, which are cheaper from the perspective of tariffs, if it registers a deficit. Nevertheless, if they register decreases, the countries that are more advanced from an agricultural perspective can renounce only at their products, giving them to a third party and offering the lower quality products to their trading counterpart in the third world. Thus, the products of inferior quality could be received by less advanced country, with the "quality control" of the traded products being the main issue in this case.

4. Arguments in favour of globalisation

The countries that register deficits in the production of food will have their requests fulfilled by the production of other countries. The globalization of agriculture should increase food production and improve the economic situation of farmers worldwide.

The low productivity of small farmers will be eliminated. There is a direct positive correlation between higher levels of trade and the increase in life standards. Moreover, the poor individuals will gain from the globalisation of agriculture. Globalisation will increase the level of food production.

Multinational companies operating outside the country process food grains and add value to these products. In this direction, they have introduced modern packaging, which enables the transport of the products. This evolution could help farmers, to a certain extent. However, the significance of the food products creates certain dangers, in the direction of overburdening the food habits of the population. In this direction, one can also mention the danger of changing of the food crops, as the cooking tradition and eating habits are the result of both the natural climate conditions, as well as the crops that are cultivated on the local level.

Globalisation has eroded the crops of some countries, causing difficulties to farmers. In order to successfully tackle increased competition, farmers have begun buying more expensive seeds, chemical synthetic fertilizers and to use increasingly higher quantities of water.

The difference between agriculture and industry is that in the latter one can measure profit with certainty. Meanwhile, in the agricultural sector, this also depends on rain and other natural phenomena. The crop is planted on a seasonal basis and must be harvested at the most appropriate moment. All the products enter the market at the same time, with the price being determined by the market, not the farmer. Under these circumstances, governments worldwide are forced to subsidize agricultural products.

The implication of the globalisation of the market and the corporatist colonialism are not acceptable, to the same extent to which previous attempts to globalise culture and of political colonialism were not tolerated. But taking into account the powerful economic and political forces promoting globalisation, how could ordinary individuals stop this negative evolution? First, we can help individuals understand the irrefutable existence of a global ecosystem, a global society and a global economy that does not justify the globalisation of the market- for example, the elimination all economic borders between nations. Natural borders are necessary in order to ensure ecological integrity. Cultural borders are necessary in order to ensure social responsibility. Economic borders are necessary in order to ensure long-term economic sustainability. Without limits, the world tends towards entropy- to a world without form, without structure, without order and without life.

In a global agricultural economy, large farms will continue to replace the small farm on the global market. Increasingly, large multinational corporations will control large farms. Many small farms depend on sales of merchandise traded on international level in order to ensure cash agricultural income, especially in emerging and the least developed countries. The most important aspect of the functioning of the agriculture can be the non-cash contribution to the quality of life. In less developed countries, the major non-cash contribution can be represented by food, clothes, shelter, while in more developed countries, there are other type of benefits, including the right to a healthy environment, private life and security, as well as an independent lifestyle. Nevertheless, in both cases, the economic sustainability of the farm depends on the cash income from the sale of merchandise in the international trade system. In the context of globalisation and corporatist colonialism, small family independent farms will simply not have access to the markets of international trade for agricultural products. In essence, all the products will be made under the framework of complete contracts offered by corporations connected to one of the large producers of food products at global level. Only operations with a large scale will be able to offer this type of contracts, with these companies potentially under collective ownership.

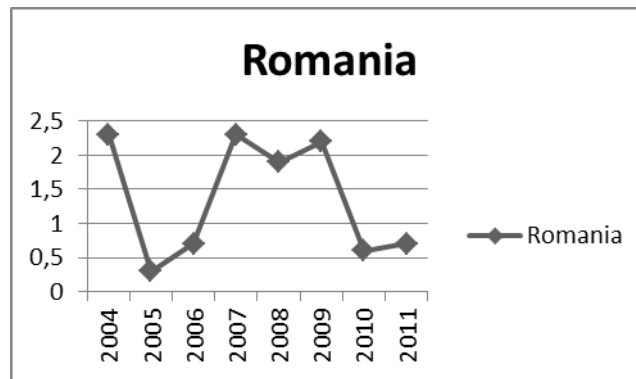


Fig. 1. Percentage of agricultural land (% of total surface), according to data of World Bank in AG Land Irrigation

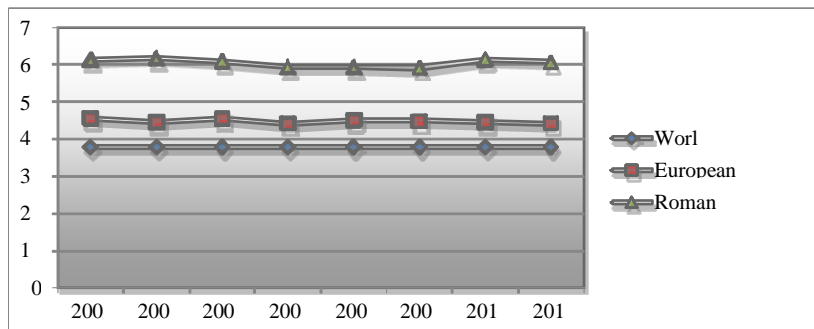


Fig. 2. Percentage of irrigated field (% of total surface)

Moreover, in a globalised agricultural economy, the small farms will be replaced by large farms, controlled by giant multinational corporations. Small farmers will simply not be able to compete on a free market, in a globalised economy. Many farmers worldwide are focusing on horticultural crops in order to ensure the competitiveness of their business.

Thus, the implications of globalisation could be even more dramatic for the horticultural sector, as compared to other sectors. However, even more important than this aspect, one has to emphasize the ecological and cultural limits, which are essential for long-term sustainability of agriculture. Thus, if all the economic borders all eliminated, the life of humans on earth as we know it, under the current system, will not be durable and sustainable.

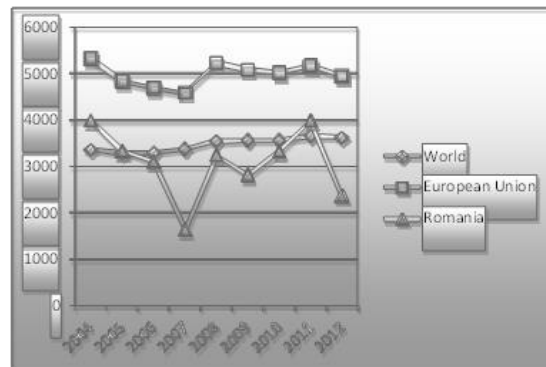


Fig. 3. Grain Production (kg/hectare), according to data of World Bank in AG Land Irrigation

In this period, the international prices of food products have increased to unprecedented levels in nominal terms, in comparison to the index of the price of raw food materials of FAO, which reached a peak in June 2008, before decreasing again at the beginning of 2009 to the level reached in 2006. As one can see in Figure 2, this increase in the price of main food raw materials was subsequent to the longest and highest increase of the price of raw materials worldwide in over a century. The factors that stand as the basis for this wave of price increase are of macroeconomic and global nature, including the rapid economic growth of developing countries during this period, especially in Asia, but also the monetary factors, including the increase in the offer of money, the lack of financial discipline and the evolution of exchange rate (especially the depreciation of the USD). Taking into account a substantive correlation in the movement of prices of primary raw materials during the analyzed period, the evolution of the prices of food raw materials, in light of their impact on food security, were relatively less extensive than those registered by other raw materials. In a larger context, that of the increase in the price of raw materials, the increase of the prices of food products was also influenced by a series of problems with the crops induced by drought, in a moment in which stocks were low. This evolution was also influenced by the larger degree of integration of agricultural markets to the energy markets, as well as the important impact, bot targeted and unintended, of government policies. It is important to note the fact the energy prices, which witnessed the most explosive growth, were sustained by the production costs of the agricultural products based on energy and fertilizers. Moreover, another significant influencing component was the increasing demand for raw materials in order to support the production of biofuels. This impact was largely witnessed on specific crops and included corn in the United States of America, vegetal oil in the European Union and, to a lesser extent, sugar in Brazil. The objectives targeted with regard to biofuel consumption, as well as support policies, have thus established a significant connection between energy prices and those of raw materials.

Moreover, the increase in production of raw materials was witnessed to the detriment of other crops, for which the cultivated area decreased (for example- wheat and soy). The fears with regard to price inflation for food products has determined a political reaction with regard to food products pricing (including rice), with both exporters and importers, acting together, wishing to ensure the supply of food products, putting pressure on the supplementary increase of prices.

The role of speculation on financial markets is also the subject of rigorous debate. Some analysts claim that the low interest rates and the low income from other markets have attracted non-commercial investors to the markets of agricultural goods and that of food products, with larger prices. Of course, the causality in this case is not established- but the more likely outcome is that larger prices having led to more chances to attract speculators. Anecdotic evidence suggests that the number of sellers in the markets has increased in consonance with the prices. For example, the institutional investment funds, which trade on long-term principles, and use large indexes, rather than specific markets, could have a role in the increase of futures prices. Various studies, such as Irwin and Saunders (2010) and Gilber (2009), offer different conclusions with regard to the establishment of whether the index funds have caused the 2006-2008 bubble with regard to the price of raw materials.

5. Development of cross-border markets

Along with the regionalization strategy, there is also the objective of the development of a territorial economic concentration based on clusters (with a high degree of intelligent specialization for each region). Romania is however behind with regard to the cooperation, dissemination of information, and the development of efficient coordination structures between companies, so that it can promote the business sector, innovation, technological transfer within the clusters and the possibility to develop brands. Furthermore, there is also a lack of business culture with regard to quality management and the quality infrastructure, which are specific to the sector, as well as the difficulty in the development and alignment of exporters to advanced certification standards requested by external markets, as well as the need of attracting investments and of streamlining the sector.

Analyzing the cross-border agricultural markets, one has to notice the interesting benefits they have in store, as well as the support they offer to producers, as well as the efficient manner in which they identify the concrete needs of the sector.

6. Regional Development of Exports

For all the regions in Romania, the development in public-private partnership of a regional competitiveness strategy, with the participation of business associations and local public authorities is necessary in order to increase the competitiveness of the region in the international trade. The following supplementary arguments can be offered in this direction:

- The regions enter in direct competition in order to attract competitive factors and the promoting of their economic identity;
- The export is an essential force for regional development in the context of globalisation and integration, context in which inter-regional competition increases;
- The Regional Development Plan must be completed in order to tackle the problems and challenges faced by exporters;
- Romania has a National Export Strategy, which must be well implemented and adapted at regional level;
- Coordinating and establishing key objectives and resources at regional level through a strategic approach is an advanced practice among European Union

member states, as well as a pre-condition for the increase of the absorption capacity of structural funds through projects that can be used by exporting companies.

Taking into account the current regional disparities, the National Export Strategy integrates the strategic regional export approaches. Under the aspect of export intensity, the development regions are in the following situations:

- more developed for exports in Bucharest-Ilfov, West, North-West and South regions
- medium developed for exports in South East and Center regions
- less developed for exports for South-West and North-East regions

In the regions of development which could get involved in the development of competitiveness strategic processes, there is no institutionalized structure, like a regional export council, in order to manage this type of process.

The idea of the creation of export councils at regional level was first vehiculated as part of the framework of the Export Council, and the management of the National Export Strategy 2005-2009 and the integration in the European Union, when it became more obvious that coordination, strategy and common vision with regard to sustainable development of export at regional level is required. This vision should be aligned and integrated in the new National Export Strategy 2014-2020 and the Regional Development Plan.

The introduction in the framework of the National Export Strategy of different essential elements regarding regional export strategies is all the more important taking into account the following aspects:

- there are discrepancies, challenges and opportunities that are specific to each region, which can generate solutions and local regional initiatives, with the regions in Romania, being less competitive when compared with the other regions in the European Union, are eligible to receive structural funds for economic development;
- within the European Union, the development regions are competitiveness vectors;
- internal and external financing can be facilitated;
- regional forces can be targeted towards specific competitiveness objectives.

From a regional perspective, the National Export Strategy and regional strategies will take into account the following guidelines:

- increase of the internationalization of Romanian companies and the participation of the regions in the international trade;
- reduction of discrepancies in terms of export performance, both inter-regionally, as well as between countries intra-regionally;
- attraction of structural funds at regional level for sustainable development of exports;
- development of regional centers to support and promote export;
- reduction of current significant differences, from the point of view of economic performance, both inter-regionally, as well as among counties intra-regionally. Even the most developed regions have a high degree of concentration of economic and commercial activities in urban areas, with important parts of the country being excluded from international trade.

The developed actions will also contribute to regional development in the following directions:

- implementation of projects and programs of rural development targeted towards export (rural tourism, organic agriculture, IT&C, furniture, crafts, textiles, viticulture);
- programs for the stimulation of the creation of business alliances, including collective marketing associations at local level in the sectors with a significant multiplier potential, such as agricultural products and food processing;
- encouraging the decentralization of the export capacity from cities to rural areas, in order to create new skills and job opportunities;
- encouraging the creation of alliances between producers.

Moreover, regional strategies contribute to job creation through:

- support and strengthening of the key employing sector;
- creation of new jobs in new sectors (for example, the high-tech and services sectors, rural tourism, ecological farms), so that mass unemployment is avoided, taking into account that Romania has lost its competitiveness in the energy domain and other large traditional sectors, which generated many jobs;
- development of a policy and competitive framework that leads to foreign investments in these sectors.

Last but not least, the strategies contribute to environment protection through the following aspects:

- the sustainable use of natural resources and, at the same time, the prevention of pollution, and in case this is not possible, the reduction of emissions and of the impact on the environment, mainly from industrial activities;
- facilitating and stimulating the conformation of exporters to environmental standards;
- environment protection and biodiversity protection at the regional level.

To sum up, the Regional Export Strategy target objectives such as:

- export support for associate producers, who export products using geographical indications and origin denominations;
- consultancy for the development of a support strategy for the formation and development of clusters and export networks in sectors with a potential of increase of exports;
- management of branding strategies at regional level;
- development of internal promotional and exhibition centers with a high degree of internationalization and specialization at the level of development regions, capable to promote the Romanian export offer so that it has an impact at international exhibitions.
- Development of regional structures in public-private partnership that are capable of ensuring the management of regional export strategies (Regional export councils) and the development of promotion centers at regional level;
- Support of the key sectors at regional level;
- Development of the export potential of the regions and their offering capacity for export on external markets.

Conclusions

The district can be an important instrument that can be used to revitalize rural areas. This is comprised of the physical capital represented by the territory in which the companies are part of a chain of offer, the human capital, which consists in the resident population and the social capital, represented by all the relations and interactions developed between those involved in the process. This allows the understanding and increase in social diversification that characterises different social areas, as the district can analyse the relationship between stakeholders.

In an international scenario marked by uncertainty and anticipating that after 2013 the European Union will offer significant attention especially to a field of efficient policies as a response to the increase of competition on the markets and represents an interesting instrument for the governmental intervention in rural development, in an area defined by quality products. In this direction, in the past years, the European Union has authorized state aid for the implementation of contracts for supply chains, as well as in the sector of promotion and modernization of agriculture and the technological development of companies.

Irrespective of the impact of the globalisation process on the cross-border agricultural development, it is certain that globalisation is the inevitable route on which the world is set, an irreversible process that is affecting all of us in the same measure and the same manner. On the other hand, the lesson learned by analyzing the cross-border agricultural markets and the effects globalisation has on this domain, one can consider that some will be winners and others will be losers as a result of this process.

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